

China Aviation Oil:
Law and Corporate
Governance
in China and Singapore

Law and Capitalism
Forthcoming, University of Chicago Press

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What we're trying to do

- Expose assumptions in canonical view of relationship between law and capitalism
- Show the problems with those assumptions (e.g. dramatic growth of Japan, Korea and China in absence of “rule of law”)
- Account for different market-oriented legal systems on their own terms
- Re-think the relationship between law and capitalism

Rethinking the Relationship

- Relationship is dynamic and multi-directional: “rolling relationship”
- Law can play multiple roles in support of markets: protection, coordination, signaling, credibility enhancement
- Nonlegal mechanisms can also play these functions, and often do in high growth economies
- The “demand” for law is a crucial variable
- “Supply” of law is not a neutral institutional endowment—legal reform contains many paradoxes

Analytical Framework Applied: “Institutional Autopsies”

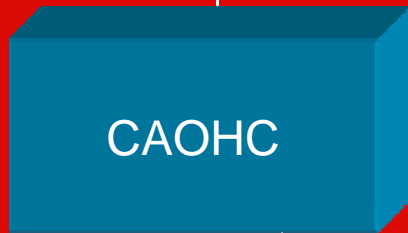
- Firm-level scandal, failure, or controversy
- Systematic analysis of causes
- Situate event within country’s institutional environment
- Evaluate response to firm-level event and larger institutional response
- Draw conclusions, extending analysis backward and forward in time

CAO Scandal

- CAO is product of restructuring of China's aviation sector, listed on SGX
- Large derivatives trading losses at CAO
- Chinese state-affiliated parent (CAOHC) places shares with investors to raise capital for bailout without disclosure of CAO's problems
- Singapore's government investment vehicle (Temasek) purchases some of the shares

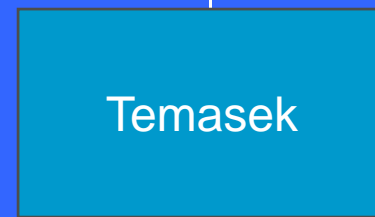
China

Civil Aviation Administration

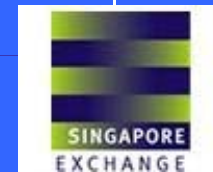


Singapore

Ministry of Finance

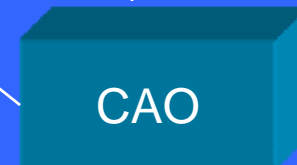


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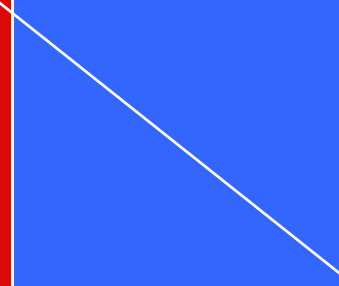


24%

25% public shareholders
(including Temasek)



75%



Resolution

- Temasek bails out CAO when problems are disclosed
- MAS imposes modest civil fine on CAOHC
- Singapore court gives jail sentence to CAO execs
- No private enforcement by minority investors
- Upshot: CAO saved; Singapore's reputation for good governance/law intact; China-Singapore economic relations (especially listing of Chinese IPOs on SGX) preserved

Singapore: Crony Capitalism *and Rule of Law?*

- Highly state-oriented governance structures, web of state-private sector contacts, personal relations key, little private enforcement of investor protections
- Yet Singapore is perceived as extremely clean, and a model of good corporate governance and law enforcement:

2005/6 rankings: Corporate gov and disclosure: 1st in Asia, Economic Freedom: 2^d in world; Corruption: 5th in world

“Singapore is known for its tough laws, strict enforcement and stiff penalties for offenders, and it exercises expedient and efficient procedures.” (Heritage Foundation 2006)

Role of Law in China's Growth

- Is China an exception to canonical link between rule of law and economic success?
- False view of China's alternatives: Convergence or failure (e.g. Dam 2006)
- Coordination
- Signaling
- Trojan Horse quality of legal reforms

The Singapore Model for China?

- “Asian Model” of law and growth?
- Can China emulate Singapore’s combination of state involvement in economy, emphasis on (relatively clean) personal relationships, and reliable law enforcement?